

[4830-01-U]

DEPARTMENT OF TREASURY

Internal Revenue Service

Defined Benefit Pension Plans; Solicitation for Comments

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Solicitation for comments.

SUMMARY: The IRS and the Department of the Treasury are seeking public comments regarding potential issues arising under their jurisdiction with respect to retirement plans known as cash balance pension plans ("cash balance plans"), particularly with respect to conversions of other types of defined benefit pension plans into cash balance plans. The purpose of these comments is to provide the IRS and Treasury with information that may be taken into account in their analysis of these issues.

DATES: Comments are requested on or before January 18, 2000.

ADDRESSES: Send written comments to: Internal Revenue Service, Attn:

CC:DOM:CORP:R (Cash Balance Plans and Conversions), Room 5226, P.O. Box 7604, Ben Franklin Station, Washington, D.C. 20044. Written comments may be hand delivered Monday through Friday between the hours of 8 a.m. and 5 p.m. to: Internal Revenue Service, Courier's Desk, Attn: CC:DOM:CORP:R (Cash Balance Plans and Conversions), 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

Alternatively, written comments may be submitted electronically via the Internet by

selecting the "Tax Regs" option on the IRS Home Page, or by submitting them directly to the IRS Internet site at: http://www.irs.gov/tax_regs/regslst.html.

FOR FURTHER INFORMATION CONTACT: Mr. Kenneth M. Griffin, (202) 622-4606 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

A cash balance plan is a defined benefit pension plan that typically defines an employee's retirement benefit by reference to the amount of a hypothetical account balance. In a typical cash balance plan, this account is credited with hypothetical allocations and interest that are determined under a formula set forth in the plan. The crediting of hypothetical allocations and hypothetical interest has been described as resembling the allocation of actual contributions and actual earnings to an employee's account under a defined contribution plan, such as a profit-sharing plan.

In recent years, existing defined benefit plans covering a significant number of employees have been changed into cash balance plans. This change, made by amending the existing plan, is commonly referred to as a conversion. In a conversion, the new cash balance benefit formula generally applies to new employees and may also apply to employees who had already earned benefits under the plan before the conversion. The law protects benefits earned before the conversion by prohibiting a plan amendment that reduces those benefits.

In some conversions, however, employees who had already earned benefits may not earn additional retirement benefits for varying periods of time after the conversion.

This effect, often referred to as a "wear-away" or "benefit plateau," continues until an employee's benefit under the ongoing cash balance formula "catches up" with the employee's protected benefit.

Comments

The IRS and Treasury invite public comments regarding potential issues under their jurisdiction with respect to cash balance plans, conversions of traditional defined benefit plans to cash balance plans, and associated wear-away or benefit plateau effects. All comments submitted will be made available for public inspection and copying, although the comments will not be individually acknowledged. Therefore, commentators should refrain from including personal tax information or other information that they believe should not be publicly disclosed.

The IRS and Treasury would like to receive comments from the full range of parties with interests in cash balance and similar plans, including employees, employers, and their representatives. The review of the legal issues relating to cash balance and similar plans is being coordinated with the agencies that have concurrent or overlapping jurisdiction over other Federal laws (such as the Age Discrimination in

Employment Act (ADEA) and Employee Retirement Income Security Act (ERISA)).

Accordingly, copies of comments received that relate to those laws will be provided to the appropriate agencies.

Dated: October 13, 1999

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